

DATE: August 1, 2001
TO: Mayor, City Council and the Citizens of Boulder
FROM: Ronald A. Secrist, City Manager
SUBJECT: 2002/2003 BUDGET MESSAGE

INTRODUCTION

As required by City Charter, Article V, Section 64(h), enclosed is the City Manager's recommended 2002 - 2003 budget for all funds. This document summarizes my proposed plan of work and allocates the resources necessary to make the workplan reality. The proposed budget was built on a fiscally sound base and supports on-going fiscal health. It is balanced; maintains existing City services; preserves a strong reserve position; and judiciously incorporates increased support for Council's adopted strategic goals.

Adopting a budget is probably the single most important policy issue that the governing body will make in support of the community. This document is much more than an allocation of revenues and expenditures. It is a plan of work, an allocation of human resources and talent, and a contract with the citizens of Boulder, committing us to high standards of performance and conduct. Since it is human nature to desire more services and projects than can be accomplished within limited available resources, the budget also reflects trade-offs and compromises necessary to fulfill our responsibilities and protect the long-term fiscal health of our community.

Protect the vigor and diversity of local communities. The social unit that will have the greatest stability and resilience into the future is the local community, which provides individuals and families with a sense of place and belonging, fellowship and support, purpose and meaning. The local community provides a common history and culture, shared values and a shared future. ...The Sacred Balance by David Suzuki

BUDGET STRATEGIES SUPPORTING ON-GOING FISCAL HEALTH

The "big picture" budget strategies included in the proposed budget continue to be:

- Ensuring that City programs and services are being provided in the most efficient and effective manner possible under the auspices of a continuous improvement philosophy;
 - Transitioning in philosophy to better recognize our responsibility as a mature community to emphasize long-term fiscal sustainability in our revenue and service-offering bases;
 - Completing the strategic financial plan, begun in 1999, to build up financial, insurance, workers compensation and building maintenance/replacement reserves to sound levels; and
 - Accepting that, as a city approaching buildout (and choosing to constrain growth to protect quality of life) absent new revenue resources, we cannot add significant new services unless there is an offsetting reduction in some other area.
-

BUDGET DEVELOPMENT PROCESS

Two City Council budget discussions preceded the development of this 2002/2003 proposed budget.

- A Strategic Planning & Budget Overview Study Session was held on May 8, 2001.
- A mid-year "budget check-in" discussion was held on July 3, 2001.

During both of these pre-budget discussion sessions with City Council, I was pleased to find that Council and staff were in close alignment with respect to the majority of budgetary issues and challenges facing the community.

GENERAL ECONOMY AND RETAIL SALES TAX

While continuing significant development activity in the City of Boulder has increased the property tax base, the retail sales tax base has not kept pace. The retail environment in and around the city of Boulder has changed significantly over the past several years. This is more than just a revenue issue. The city's retail environment is important because:

- A vibrant mix of healthy entertainment and shopping options contributes to the unique community character of the city;
- It is necessary to meet the shopping needs of citizens; and
- It provides the sales tax revenue, which funds approximately 40% of the city budget.

Historically, the city of Boulder was the retail-shopping hub of the Boulder Valley. Concurrent with substantial increases in the population and employment bases of other Boulder Valley communities, retail shopping has become more dispersed. Although not experiencing the retail growth of the State and many other Colorado municipalities, through the third quarter of 2000, strong capital purchases by businesses and increases in disposable income and spending in the area have maintained sales tax revenue exceeding the rate of inflation, thus covering inflationary increases in the cost of services and the cautious addition of new initiatives, including increased General Fund support of affordable housing.

Although sales tax revenue growth has continued at reasonable levels, negative revenue impacts began to be felt when the Flatiron Crossing Mall opened in Broomfield in August 2000. The new mall is capturing some retail and entertainment sales (and the associated retail sales tax) that would otherwise have occurred in the city of Boulder.

Along with the leakage of some retail sales, we are beginning to experience some sluggishness in the area economy which, along with the negative wealth effect caused by stock market declines, has probably reduced consumer confidence and the associated spending in disposable income.

The 2002/2003 Proposed Budget assumes that, with the exception of continuing growth in ancillary retail around Flatirons Crossing Mall, most of the retail leakage will have taken place by the end of 2001 and a more normal growth pattern will begin from a new, lower base. The sales tax forecast assumes only a very modest increase from a renovated Crossroads Mall or other new retail in the City beginning in the fourth quarter of 2004. Assumed sales/use tax increases follow:

Year	2000 Actual	2001	2002	2003	2004	2005	2006
% Change	5.19%	0.61%	2.77%	3.55%	3.98%	3.01%	3.01%

The city has implemented several strategic actions to prepare for the leakage of sales tax revenue. In 1999, over \$1 million in reductions were made in the operating expense base of the General Fund and the "savings" were allocated to increasing reserves in virtually all areas. In addition to building the General Fund Reserve to the current 12% level, a number of additional initiatives were included in the 2000/2001 Budget and five-year financial plan to promote long-term fiscal stability. This 2002/2003 proposed budget and associated five-year financial plan completes the previous strategic plan, which included the following:

- C Elimination of a backlog of building maintenance needs;
- C Funding for major maintenance and renovation/replacement of buildings (with the exception of debt-financed buildings) at a rate of 2% of current replacement value per year;
- C Full funding for the Equipment Replacement Fund;
- C Full funding for the Computer Replacement Fund;
- C Funding to make the Workers Compensation and Property and Casualty Insurance Funds actuarially sound;
- C Elimination of certain employee termination benefits and the establishment of a reserve to pay for those benefits that were vested and/or "grandfathered" in.
- C Once completed, the reduced operating base would absorb some revenue reductions caused by sales tax leakage.

Therefore, even with added retail competition, a combination of the new Boulder retail stores recently opened or planned for the future and increased retail spending due to the growth related general increases in disposable income in the region, should support a slightly lower, but healthy on-going retail sales tax base. Even though multiple strategic actions have been implemented to support continuing fiscal sustainability, future financial plans conservatively assume that annual sales tax growth forecasts only approximate the rate of inflation for the out-years.

BOULDER'S HEALTHY ECONOMY PLAN

One of City Council's four strategic goals (Economic Sustainability) includes development of a "Healthy Economy Plan" which was finalized in July. Currently, the City is undertaking many economic-related initiatives, under different departments. City responsibility to manage the implementation of these, plus additional proposed initiatives, requires the coordination of several areas, including the Planning Department, Finance Department, BURA, Downtown Management Commission, Housing Department, business improvement districts, Convention & Visitors Bureau, and the City Manager's Office. Another important need is coordination of economic issues liaison activity with private organizations, institutions, other government agencies, the Boulder Valley Chamber of Commerce and the University of Colorado.

The 2002/2003 Proposed Budget includes \$250,000/year, beginning in 2003, for a new entity within City government that can coordinate various city efforts, communicate directly with the private sector and major institutions, have the authority to be effective, and not be redundant. These actions will help Boulder achieve the *Healthy Economy* goals and objectives, and the City Council's Economic Sustainability goal: "Consistent with community goals and character, encourage a strong sustainable economy to fund quality services for all citizens."

The five-year proposed action plan developed as part of "Boulder's Healthy Economy Plan" includes:

1. Redevelop Crossroads Mall
2. Expand telecommunications infrastructure within the City.
3. Prepare a Tourism Master Plan
4. Implement the programs and projects already underway, which strengthen the existing economic engines of Downtown, BVRC and Boulder's neighborhood commercial centers.

5. Revitalize the University Hill Commercial District
6. Build a Boulder/University of Colorado Conference & Learning Center.
7. Improve Boulder's *Healthy Economy* management information system and monitor economic indicators for a sustainable economy.
8. Establish a Client Care Program supporting existing Boulder businesses.
9. Participate and provide leadership in organizing a forum for a Regional Affordable Housing Coordination Group and Land Trust.
10. Support the City of Boulder's Comprehensive Housing Strategy.
11. Form a Boulder Valley *Healthy Economy* Coordination Group to work with regional bodies.
12. Develop a business-to-business database and referral matching system.
13. Create a commercial and industrial service zone within the City.
14. Develop an Entrepreneurship Incubator Program and retail incubator facility.

CONTINGENCY PLAN

Although more optimistic and more pessimistic revenue forecasts were modeled, this 2002/2003 Proposed Budget is based upon what we consider to be "most likely" retail sales tax assumptions. Because the retail sales picture lacks clarity and sales tax revenue makes up 40% of citywide revenue, it is fiscally prudent that contingency plans be available to enable continuing fiscal health if revenues are less than forecast. Such an expenditure reduction plan (\$4 million over 4-year period) has been developed. This strategic plan is provided for Council review and consideration and can address circumstances that could result from an economic downturn seriously impacting citywide sales tax collections or the failure to renew the .15 sales tax for Public Safety programs which is set to expire in 2004.

INCREASED SUPPORT FOR CITY COUNCIL STRATEGIC GOALS

I am pleased to report that, within the constraints of available resources, significant resources (both fiscal and other tools available to City Council) have been directed toward support of City Council's strategic goals. Highlights follow and a separate section is included in each departmental budget page discussing each department's contributions toward the four goal areas.

Economic Sustainability

1. Willingness to use eminent domain authority to condemn some or all of the Crossroads property if necessary to facilitate renewal in a manner and timeframe acceptable to the City.
2. \$2.9 million available on one-time basis (from BURA debt service reserve fund) for the Crossroads renewal project. No specific appropriation for these anticipated funds has been included in the proposed budget.
3. On-going funding of \$250,000 from the General Fund for a City division to support economic sustainability efforts.
4. \$3.0 million loan from the General Fund to enable completion of the Downtown Master Plan.
5. \$20,000 for additional overtime for General Fund Police support of the University Hill area.
6. One-time \$50,000 from UHGID for implementation of the University Hill Market Study recommendations.
7. Reallocation of \$270,000 from the General Fund Computer Replacement Fund to the Telecommunications Fund for connectivity projects. Fiber optic connectivity has been identified as an important tool to support fiscal sustainability.
8. Addition of 4 fixed term FTEs in Planning and Development Services to enable prompt and quality review of development projects.

Environmental Sustainability

1. New recycling regulations may enable some portion of the Trash Tax to be used for other recycling projects (subject to upcoming City Council policy decisions).
2. Open Space - Increased budget (\$120,000) for seasonal employees to implement goals related to the Integrated Pest Management & Resource Management plans.
3. Open Space - \$44,000 for fleet and facility energy conservation improvements.
4. Environmental Affairs Office - Increased funding for an Integrated Pest Management coordinator position (on-going \$15,075).
5. General Fund - Added 1 fte & on-going operating cost (\$49,000) for management of a new irrigation system as recommended in the Environmental Audit. \$297,000 in capital costs for this project have been included in the CIP
6. Transportation Fund - Addition of a new wash bay (\$70,000) & on-going maintenance (\$10,000/yr) as recommended by the Environmental Impact Study.
7. Median Maintenance

Affordable Housing

1. Continuation of fee waivers serves as affordable housing subsidy.
2. Continuation of General Fund subsidy of \$336,000 to Affordable Housing Fund.
3. Establishment of an operating budget (\$67,500) for the Affordable Housing Fund.

Transportation

1. 2002/2003 Budget for the Transportation Fund has been developed in accordance with the recommendations of the Transportation Master Plan prioritization with a pedestrian, bike and transit modal emphasis. On-going reviews may result in additional support in this area.
2. Residential street lighting upgrades (\$ 14,400) have been added to support security and walking as the primary transportation mode in some areas.
3. Inclusion of one-time funding in 2003 of \$525,000 for continuation of the HOP pilot project pending a decision from RTD which could result in full funding of the service in the future.

EFFICIENCY IMPROVEMENTS

The organization is dedicated to a continuous improvement philosophy in the provision of services to the Citizens we serve. To illustrate our on-going commitment to this way of doing business, performance benchmarks and a list of efficiencies accomplished over the past year are included in each department's budget submission. As part of the on-going program to identify service improvements and efficiency enhancements, the management audit program, added in the 2001 budget, is continued in this 2002/2003 proposed budget.

PRIVATIZATION/OUTSOURCING/CONTRACTING

One of the many tools available to the City includes, where appropriate, the use of private sector resources to produce goods or provide services. Options range from utilizing various consultants to retaining private sector organizations to provide certain janitorial services, to contracting out the full provision of certain services like engineering surveys, payment processing, or rental inspections. The organization regularly looks for opportunities where exposing operations to the competition of the commercial marketplace would reduce cost or add value. To demonstrate the many situations where such tools are being successfully utilized, each department has included a list of private sector resources utilized to accomplish their service goals.

COMPENSATION CHANGES SUPPORTING SERVICE QUALITY

For the City to provide leading edge services, it must employ top quality people. To maintain our competitive market position and the ability to recruit and retain top-notch employees, we have undertaken two initiatives in the 2002/2003 budget: 1) a new compensation system and 2) increased funding for health insurance.

In order to ensure that we compensate employees fairly within the organization and competitively within the labor market, periodic redesigns of the compensation system are required. The current salary structure for management and general non-exempt employees is 26 years old. It manages internal job relationships well but it does not have a strong labor market relationship. The new system is proposed to be implemented in January 2002 for management employees and will be negotiated with B.M.E.A. employees for 2003. The new system will create new salary structures and policies, strengthen the relationship of performance to pay, and encourage recognition and rewards for specific performance. The proposed budget incorporates estimates of cost impacts of the system change. The new system is built on the philosophy that the City of Boulder is committed to recruiting and retaining highly productive employees through a competitive total compensation package which strives to provide favorable salary relationships when compared to appropriate labor markets, while also recognizing the City's ability to pay; maintain internal job relationships according to the responsibilities and customer service requirements found in all jobs and recognize and reward employees for their efforts as demonstrated through specific performance achievements.

The City of Boulder has experienced very large increases in health insurance costs recently, as have most U.S. employers. Over the past three years, in an attempt to provide reasonable benefits at an affordable cost, the City conducted a major reconfiguration of its health insurance coverage and twice rebid all plans. Last year, due to a significant increase in the amount and cost of medical services used by participants, the City used one-time benefit monies to underwrite some of the premium cost. In order to remain competitive with benefit levels in comparable Front Range cities, the City has continued the insurance premium subsidy in 2002/2003 budget.

EMPLOYEE INJURY PREVENTION & WELLNESS PROGRAM

A pilot employee wellness program was initiated in 2000. To date, results have been positive. Although not necessarily directly connected to this program, workers compensation rates have declined significantly, enabling both a reduction in the rates and the addition of Wellness Program funding from the Workers' Compensation Fund.

The program includes:

- Personal Health Assessment, orientation to facility use, individualized consultation & support.
- Use of the North, South, and East Recreation Centers, Boulder Reservoir, and Outdoor Pools.
- Wellness Workshops and Prevention Programs.
- First Aid and CPR certification
- Eligible for raffle of Gift Certificates after 50 uses of Recreation Facilities within a year.

CHANGES IN BUDGETED FTE'S

As with previous proposed budgets, since personnel cost makes up the majority of City expenditures, FTE control is a continuing goal. Nonetheless, increases in FTEs are sometimes required to complete the desired work plan. Such is the case in the 2002/2003 Proposed Budget.

Changes from the 2001 revised budget (net of transfers, conversion from temporary to standard with no increase in funding, grant funded and shifts between departments) are as follow:

FTE Additions from Existing Revenue Stream

Department	Fixed Term	Standard	Increased Service
City Manager	1.00	0.25	Environmental Affairs
Human Resources	0.00	2.00	Wellness Program
Parks & Recreation	0.00	1.00	Irrigation system
Housing/Human Svcs.	0.00	1.00	Affordable Housing Fund
PW/Transportation	0.00	1.00	Median maintenance
Library Auditorium Supv.	0.00	0.25	Management of Auditorium
Total	1.00	5.50	

FTEs Funded by Additional Revenue

Department	Fixed Term	Standard	Increased Service
PW/Utilities	1.00	0.00	Bio-solids processing/rate funded
Planning & Dev Svcs	4.00	0.00	Development fee funded
Total	5.00	0.00	

A more complete list, including a listing of all changes by department, is included in the Citywide Summaries section of the proposed budget document.

BURA ISSUES

The Boulder Urban Renewal Authority debt will be paid off March 1, 2002. The proposed budget includes funding for the current BURA organization (staff and non-personnel expenses totaling \$365,609 for 2002).

Beginning in 2003, on-going General Fund support of \$250,000/year is included in the proposed budget for a City division to support citywide financial sustainability efforts. (See previous section of this document discussing Boulder's Healthy Economy Plan.)

If some version of the current BURA organization is to continue beyond 2002, the following possibilities exist for funding:

- Establish a Business Improvement District in the BURA area and fund administration through self-imposed property taxes.
- Use part or all of the approximately \$700,000 currently maintained by BURA in a revolving loan fund.
- Request funding from the \$2.9 million bond reserve fund that will revert to the City in 2002.

When the BURA debt is retired, the \$2.9 million bond reserve will be available for any valid City purpose. It is not allocated in the proposed budget. Instead, it is identified as a policy issue for Council direction. My recommendation is that Council appropriate these funds to support redevelopment in the BURA area.

FUNDING FOR INCREASED ENERGY COSTS

Energy costs have increased substantially during 2001. Departments responsible for gas & electricity payments are unable to absorb the increases within the 2.5% growth included in their budget targets. For all restricted fund departments, extraordinary increases in energy costs were approved as part of their base budgets. For the General Fund, \$ 371,000 is included as a separate line item and the associated budget will be transferred as necessary.

2002 ADDITIONAL PROGRAMS/SERVICES INCLUDED IN GENERAL FUND

A summary of all additions to base budgets for General Fund departments follows:

Department	Explanation	One-time Expense	On-going Expense
City Council	Increase bgt to reflect trend spending		16,128
City Manager/Clerk	Secure City official records		9,600
City Manager/EAO	Add'l IPM Coordinator position		15,075
Non-departmental	Equipment for Boulder Co-op Mkt	2,000	
Fire Dept	Add'l funding - Rocky Mtn Rescue		2,600
Parks & Recreation	Irrigation system support	22,000	49,000
Police Dept	University Hill overtime		20,000
Parks & Recreation	Skatepark supervision		35,000
Police	Photo Red Light Program * Transportation will cover any net cost to the General Fund		375,000

2002 ADDITIONAL PROGRAMS/SERVICES INCLUDED IN RESTRICTED FUNDS

A summary of all additions to base budgets for restricted fund departments follows:

Department	Explanation	2002		2003	
		One-time Exp	On-going Exp	One-time Exp	On-going Exp
Affordable Housing Fund	Establish operation budget		67,500		
Open Space	Seasonal & temp employees		120,000		
Open Space	Fleet & energy conserv. impr		44,000		
Airport	Building maintenance		20,000		
Transportation	Median maintenance		40,429		
Transportation	Fleet charges		200,000		
Transportation	New wash bay	70,000	10,000		
Transportation	Fleet replacement costs		8,000		
PW/Utilities - water	Water treatment - energy costs		100,000		25,000
PW/Utilities - water	Water treatment - chemicals		30,000		
PW/Utilities - water	Water treatment - prevent maint		35,000		30,000
PW/Utilities - water	Utility maint - fleet repl costs		45,000		
PW/Utilities - water	Telecom network infrastructure	15,000		20,000	
PW/Utilities - water	Water Quality Master Plan			75,000	
PW/Utilities - water	Water Resources - emergency svcs				20,000
PW/Utilities - wastewater	Wastewater trtmt - energy costs		10,000		50,000
PW/Utilities - wastewater	Wastewater trtmt - fleet replacement		76,000		
PW/Utilities - wastewater	Household Hazardous Waste prog		15,000		
PW/Utilities - wastewater	Biosolids - Resource Recovery Opr		25,000		
PW/Utilities - wastewater	Telecom network infrastructure	15,000		30,000	
PW/Utilities - flood	Fleet replacement costs		8,000		
PW/Utilities - flood	Stormwater qual - Haz Waste Prog		15,000		
PW/Utilities - flood	Telecom network infrastructure	15,000		30,000	
Parks & Rec Sales Tax	Sprinkler Control	296,736			
UHGD	Uni-Hill market study impl	50,000			
Transportation	HOP pilot			525,000	
Transportation	Add'l multi-modal path maintenance				6,000
Trans Development Fund	Telecom network infrastructure			125,000	
Workers Compensation	Wellness Program		146,900		
Planning & Dev Svcs	Building Inspector		49,000		
Planning & Dev Svcs	Operations & Administration			124,000	
Planning & Dev Svcs	Specialist/Management Asst			64,000	
Planning & Dev Svcs	Secretary (phones)			30,000	

POLICY & REVENUE ISSUES REQUIRING CITY COUNCIL DIRECTION

Stadium District Refund

The City of Boulder has received \$645,000 in excess revenue from the Stadium District. This is revenue collected during the interim period after the Baseball Stadium debt was retired but before the Football Stadium debt service begins. These funds may be appropriated by City Council for any one-time City purpose. Possible options raised to date include:

- Affordable Housing Program (local, regional, or DET waivers)
- Contingency Savings
- Contribution to Pearl Street Mall improvements
- Countywide fund providing recreation services for low income children
- Crossroads redevelopment or civic use
- Homeless Shelter
- Intermodal Transportation Center
- Strategic street, sidewalk or alley improvements

Public Safety .15% Sales Tax

Even though the .15% sales tax for public safety purposes expires in 2004, current projections indicate that there will be adequate fund balance available to continue most services provided by this fund through 2005 without a reauthorization of the expiring tax. In addition to the sunseting sales tax, 2 mills of property tax also provides support for this fund. The property tax portion of the revenue stream has no sunset date.

To continue to provide Public Safety Fund services beyond 2005, some or all of the .15% sales tax would have to be extended by a citizen vote. Although a 2001 election was considered, the fact that the County is including a fire training center issue on the 2001 ballot and the revised financial projections that indicating that most services could be funded through 2005 by using fund balance, City Council decided to postpone consideration of an election until 2002.

One potentially confusing factor complicates understanding of the Public Safety Fund budget model. Based upon the requirement that all restricted funds must live within their designated revenue streams, prior multi-year plans were growth constrained and restricted expenditure increases to less than the level of inflation. Even without extension of the .15% sales tax, over time this would have required some service level (FTE) reductions. The financial model previously assumed that property tax revenue would grow at likely 4% - 5% per year. Given more current information, we now know that 2001 assessed valuation increases could allow the property tax portion of the revenue stream to increase by 24%, allowing the fund to maintain service levels (FTEs) for the foreseeable future. While other portions of City property tax revenue are constrained by TABOR to the percent increases in consumer price index plus new construction, approval of the Public Safety Tax ballot question included exempting the incremental 2 mills from TABOR restrictions.

Therefore, the 2 mills supporting the Public Safety Fund could grow by 24% resulting in a revenue increase of \$573,000 per year. Certifying property tax at the full 2 mill level could either:

- Supplement revenue to enable expenditure growth at approximately the rate of inflation and eliminate the possible future need to reduce service levels; or
- Accept that future service level reductions may be necessary if restricted Public Safety Fund revenues do not support existing staffing and request continuation of a lower sales tax rate at some future election.

Certifying the full 2 mills would increase average property taxes, for residential taxpayers, approximately \$1.49 per year for each \$100,000 in assessed valuation.

Trash Tax Revenue and Services

The Trash Hauler ordinance goes into effect on November 1, 2001. Given that the costs of basic curbside recycling will now be privatized and included in citizen's base trash rate, this could allow the reallocation of existing trash tax revenues to other waste reduction programs to further support achievement of the City's 50% waste diversion goal. Previous discussions indicated that Council does desire to continue the Trash Tax and add recycling services. Additional direction is needed to establish what the trash tax rate should be. A precise estimate of revenue that would be generated at various rates is difficult because once volume-based trash rates go into effect; many customers will reduce their service level (maximum number of cans) that determines their current charge. Our best estimate of future customer consumption patterns is that continuation of current average residential customer rate of \$ 1.69 per month and the average commercial rate of \$0.53 per yard would generate approximately \$1.1 million in revenue per year. The rate set for the continuing trash tax will determine which programs can be funded.

Waste Reduction Program(s)	2002 On-going Annual Cost	Avg Residential Monthly Trash Tax Rate Required to Support Program(s)
On-going:		
Personnel expenses	\$77,500	\$0.56 average per household per month
Public & City office recycling collection	15,000	
Yard waste drop off center	72,000	
Spring Cleanup	160,000	
New Initiatives:		
Trash Hauler transition assistance (incl multi-fam)	135,000	\$0.22/hh/mo
Weekly curbside yard waste collection (net cost)	300,000	0.48/hh/mo
Local market development, land improvements for hard-to-recycle drop off center, etc.	100,000	\$0.16/hh/mo
Waste reduction education (incl home composting)	100,000	\$0.16/hh/mo
Business waste reduction & recycling assistance	67,500	\$0.11/hh/mo

Utility Funds Issues

The 2002/2003 proposed budget assumes certain rate increases for the Water, Wastewater and Flood Control Utility Funds. A chart listing proposed increases through 2005 follows (with 2001 shown for comparison purposes):

Year	Water	Wastewater	Flood Control
2001	10%	6%	4%
2002	9%	12%	8%
2003	3%	12%	8%
2004	3%	6%	4%
2005	3%	4%	4%

If approved, the rate adjustments would become effective 1/1/2002 and would increase a typical residential customer's bill approximately \$50.00 per year or \$4.20 per month. The additional revenue would fund the debt service for major capital projects. The specific projects are further discussed in the overview section of the utility fund departmental budgets. If approved, a survey reflects that the 2002 increased water and wastewater rates increases would continue to be competitive and would fall approximately at the mid-point of those in comparable communities.

The proposed budget also assumes increases in Plant Investment Fees (PIFs). PIFs are a one-time fee collected when a property is annexed, developed or redeveloped and requires access (capacity) into the existing water, wastewater for flood control infrastructure. PIFs were last revised in January of 1996. The proposed fees are based on the most recent asset valuation and were recalculated as part of the 2001 Utility Rate and Plant Investment Fee review. PIF assessments for other types of customers (i.e. small and large residences) will also be revised using the proposed base amounts as listed below and will be submitted as part of the update to BRC Section 4-20 relating to City fines and fees.

Fund	Current PIF	Proposed PIF
Water	\$ 4,855	\$ 8,438
Wastewater	\$ 1,140	\$ 1,615
Flood Control	\$ 1,095	\$ 1,582

There is one further issue in the Flood Control Fund that should be clarified. The proposed 2002 - 2007 rate structure and capital improvements program includes \$3 million for a relatively small amount of South Boulder Creek mitigation to be funded through a bond issue. A community supported plan for flood mitigation continues to be developed. It is likely that plan will require significant additional funding.

Neighborhood Impact Issues Created By College Student Housing Moves

To address the impacts of student moves and item disposal in the Hill and Goss/Grove neighborhoods, the city sponsored a pilot program, Aloha Boulder Trash Removal/ Recycling Program this spring. Approximately 550 cubic yards (180 dumpster loads) of trash and discarded items were removed from these neighborhoods during a three day period. Included in the discarded items were 85 couches and 9 refrigerators. This event was conducted in conjunction with the Sofa Swap. Neighborhood groups were also actively involved in the organization and implementation of this pilot program. The actual costs of the pilot was \$13,477 (\$600 funded by trash tax, \$12,877, absorbed by the 2001 Planning & Development Services (P&DS) General Fund budget.

The fall 2001 portion of this pilot program will be implemented during the week of August 20th. Costs are expected to be comparable to the spring program and P&DS is prepared to absorb these costs. If it is determined that this program should continue in manner similar to the pilot events, we would anticipate an annual cost of approximately \$30,000 in 2002, which would require additional budgetary funding from the General Fund.

Other alternatives that continue to be pursued include the proposed ordinance change to more specifically define responsibilities in this area by requiring rental property owners to have trash service. Although no specific funding has been identified in the General Fund for this purpose, if Council decides this work should be continued, I will attempt to modify the budget accordingly.

Continued Provision of University Hill Area Enhanced Services from the Transportation Fund Outside the Parameters of the TMP Approved by Council in 2000

A pilot curb-to-curb street sweeping (first of the month) and hand cleanup program (mid month) was performed in 25 blocks of the University Hill area in response to University Hill Action Group recommendations. The pilot was implemented to determine if the group's goal of "cleaning up the hill and keeping it clean" would help address incidents on the Hill and improve the neighborhood. Without winter month sweeping, it is estimated that a continuing 5 month program would cost \$26,000. If the program was year-round, the cost would be \$81,000. Expanding the area of the pilot to the entire University Hill area (Baseline to Arapahoe, between Broadway and 9th) would approximately triple the cost. This would be an enhanced level of service, not currently provided in any other residential neighborhoods.

Based on the relatively small amount of material collected each month and the relatively high cost to collect the material, we do not feel that the mechanical sweeping is the most efficient or effective method. Despite ticketing of autos left on the street, consistent compliance with the no parking restrictions is not high and reactions from adjacent residents are often negative and confrontational. Staff recommends that the area be swept curb-to-curb twice a year and that hand cleaning of the area be done on a monthly basis through either the Restorative Justice program or with volunteers. Should Council wish to retain a part or all of the enhanced street sweeping service, I will want to adjust the budget accordingly.

In 1995, the approved Uni-Sketch Plan identified commercial alley project improvements. However, as part of the 2000 TMP prioritization and at City Council direction, \$1 million was shifted to alternative modes and the appropriation for commercial alley reconstruction was eliminated. Therefore, funding of the ambitious alley improvement programs will be considered as part of the upcoming TMP update.

Landscaping and irrigation improvements to collector streets were also evaluated as part of the Uni Hill Implementation Plan. Such a project would require approximately **\$93,000** in capital and **\$19,000** in operating cost.

Council discussion and direction is required to determine if any of these University Hill related initiatives should continue to be implemented from the Transportation Fund. Additional detailed information is provided in the Transportation section of the proposed budget.

Acceleration of Work Program for Long Range Planning

The major focus for the Long-Range Planning division in 2002/ 2003 will be the commercial growth management project and implementation of the Comprehensive Plan mixed use land use designations. Although we will work on other projects as well, this project is expected to require the efforts of the entire long range planning staff (4.0 FTE), resources from other departments and areas of P&DS, and approximately \$105,000 for consulting help (e.g., facilitation, economic analysis, citizen survey and urban design). By way of comparison, the 1997 comprehensive rezoning project called upon the efforts of every staff member in the Planning Department to ensure a positive project outcome.

There are a number of Planning Board/ City Council requested work items that we will not be able to complete as part of the 2001/ 2002 long range planning work program. These primarily include leading the public processes and developing potential subsequent regulatory changes related to:

- encouraging more accessory dwelling units (ADUs);
- addressing neighborhood character issues caused by pop-ups and scrape-offs;
- evaluation of the current regulation restricting the number of unrelated occupants in single family and multi-family zones;
- full implementation of the annexation policy regarding fully developed Area II properties; and
- area plans for neighborhood commercial centers.

The current plan is to delay these work items for a year or more. If Council wishes to accelerate the long range planning work program, it would require additional resources incorporating a balance of an internal staff project manager overseeing some level of external consulting efforts. On average, outsourcing a project the size and scope of those listed above requires costs that are approximately the same as those listed in the chart below for each project. Furthermore, the total project could not be handled solely by a consultant and would still require additional internal FTE resources to manage project and costs. Our recommendation for the best balance requires additional FTE for an internal staff project manager responsible for contracting with external resources to accomplish specific aspects (e.g., facilitation and urban design consultation) of each project as shown below.

ESTIMATED COST OF ACCELERATING PROJECTS

Project	FTE	Salary & Benefits	Associated NPE	Consulting NPE	Total
ADUs (1)	0.50	\$34,000	\$2,500	\$30,000	\$66,500
Pop-ups /Scrape-offs (1)	0.50	34,000	2,500	40,000	76,500
Evaluation of unrelated regulations (1)	0.25	17,000	1,250	15,000	33,250
Annexation Policy	0.50	34,000	2,500	5,000	41,500
Area Plans (2)	0.50	34,000	2,500	30,000	66,500
Total	2.25	\$153,000	\$11,250	\$120,000	\$284,250
Note: If the 1 st 3 projects were combined, they could be addressed jointly during public process events and thereby achieve some savings. The resources required could be reduced to:	1.00	\$68,000	\$5,000	\$70,000	\$143,000

Although no specific funding has been identified for this purpose, if Council decides this work should be accelerated, I will attempt to modify the budget accordingly.

Golf Course Expansion Fees

The City charges an additional fee for each round of golf played at Flatirons Golf Course to fund golf course capital improvements. The golf course now needs additional operating revenue and staff is proposing to shift approximately 50% of the capital expansion fee revenues to cover operating costs at the golf course. If Council agrees with this proposal, approximately \$94,000 would be shifted from capital to operating on an ongoing basis.

CONCLUDING COMMENTS

The 2002/2003 proposed budget supports the City Council's policies of balanced budgets with adequate reserves, attracting and retaining high quality staff with competitive salaries and benefits, adding new programs cautiously and making decisions within the context of balanced multi-year financial plans. Although it does not add many of the new services we would all like to consider if revenues were not so constrained, it continues to support the excellent services our customers deserve and have come to expect. The proposed budget focuses upon and is aligned with City Council's priority goals in the areas of affordable housing, economic sustainability, environmental sustainability, and transportation.

In closing, I wish to express my sincere thanks, admiration and appreciation to all city staff who contributed to the development of this proposed budget. Hundreds of city employees contributed to its development and accuracy. In particular, my highest commendation to Finance Director Kate Love, Assistant Finance Director Tom Hagerty, Senior Budget Analyst Kathy McGuire, and Budget Analyst Cindy Miller who play such a critical role in producing this budget document and developing the final models and projections.

Respectfully submitted,

Ronald A. Secrist
City Manager

CHANGES TO PROPOSED BUDGET

The following changes were recommended by staff at the 2nd reading of the 2002 budget. These changes were supported by City Council and incorporated into the 2002 approved budget.

Based on the fact that a mild recession started in late summer, which was deepened by the tragic events of September 11th, staff reassessed the City's financial strategy and proposed budget. Given year-to-date experience and increasingly negative projections for the fourth quarter, staff recommended that the sales tax forecast for 2001 be revised downward to a negative (.80%). In addition to lowering 2001 revenue estimates by \$1.04 million, this revision also lowered the base upon which subsequent years' revenue is predicted. Combined with adjustments in projections for 2002 and 2003, revenue projections were lowered by \$2.068 million and \$1.236 million respectively. In addition staff recommended that accommodations tax projections also be revised downward by \$300,000 for 2001 and \$600,000 in 2002. A combination of stringent expenditure control and a one-time use of fund balance will be used to accommodate any revenue shortfall in 2001. Fund balances in each of the impacted funds are strong enough to accommodate this strategy.

To address the revenue shortfall for 2002, staff recommended that most of the proposed new FTEs for 2002, the exceptions being the FTE associated with the trash tax, a .5 FTE in Housing (funded by the Affordable Housing Fund) and a .25 FTE in the Library (no budget impact), be deferred at this time. Staff also recommended that the first year of the General Fund four-year budget reduction strategy (with the exception of the Firefighter position and the raising of the development related fees) be implemented. With these exceptions, reductions to the General Fund total \$632,398. Please refer to Attachment I to this document for a detailed listing of these reductions.

Other funds impacted by the revised sales tax are the Open Space Fund, Public Safety Fund, Parks & Recreation .25% Sales Tax Fund, and the Transportation Fund. Following are a brief description of how each of the funds are addressing the estimated revenue shortfall.

Open Space Fund

Staff recommended that the entire projected unexpended 2001 budget be retained in the fund balance to cover the projected reduced sales tax revenues.

This will primarily consist of \$653,000 from unexpended budgeted management personnel, material and supplies. An additional \$500,000 of projected savings will come from the 2001 Trails CIP and \$100,000 from unexpended 2001 Minerals Acquisition CIP budget.

Under this recommendation, the proposed 2002 Management and CIP funding levels will remain the same as presented in the proposed budget.

Public Safety Fund

Staff recommended that the shortfall in revenue be absorbed by fund balance. Current fund balance projections are sufficient to enable the funding of estimated expenditures through 2005. The sales tax for the Public Safety Fund is set to expire at the end of 2004.

Parks & Recreation .25% Sales Tax Fund

In order to address estimated shortfall in the .25 Sales Tax Fund, the Parks and Recreation Department proposed a reduction in monies budgeted for New Neighborhood and Pocket Park Development. There are approximately 10 undeveloped neighborhood and pocket park sites ranging from .5 acres to 7 acres, about 25 acres total. \$738,000 is allocated annually to develop neighborhood and pocket park sites, and this decrease will extend the completion of the parks. Because the PRAB board has not determined the prioritization of the possible parks development, this reduction will not impact any identified park

development project in 2002. Deferring new park development recognizes the need to continue the quality of maintenance services in existing City of Boulder parks before developing new parks.

Transportation Fund

When reviewing the current transportation fund financial cash flow based on revised sales tax projections, it is expected that Transportation will be able to adjust to the revisions through a combination of positive fund balance and pledged budget savings with minor impacts to the operating budget and no impact to the capital budget.

Based on revised fund financial calculations, spending reductions approximating \$300k over the next two years in combination with a projected fund balance surplus will allow the fund to absorb the projected decline in sales tax revenue over time. Transportation coordinators are committed to achieving these savings and will be working with their respective program/project managers to implement this plan. The only program that is unpredictable is snow and ice control. This contingency will be taken into consideration with planned savings.

Staff believes that the proposed strategy maintains the intent of the TMP Prioritization workplan and continues to retain fund balance reserves.

Stadium Tax Refund

Lastly, at the study session on October 9, 2001, Council directed staff to include in the 2002 budget the \$645,000 from the Stadium Tax Refund for the Homeless Shelter. Interest from these funds will remain with this allocation. Council will revisit this allocation within a year if the Homeless Shelter project has not moved forward.

ATTACHMENT I: 2002 GENERAL FUND STRATEGIC FINANCIAL PLAN REDUCTIONS

Department	Item(s)	2002 Reduction	Brief Explanation
City Attorney	Consultants & info resources	\$ 5,000	Less outside legal assistance
City Council	Memberships	5,500	Likely Nat'l Conf of Mayors & Nat'l League of Cities
City Manager & Related Division (DUHMD/ Parking Services, Environmental Affairs, Public Affairs, Support Services & BURA)	Parking Enforcement – 0.5 FTE	19,996	Currently vacant position
	Contribution to Alt Modes	24,971	Unused 2001 Eco-pass allocation for Downtown
	Boulder FYI	4,715	Outdated technology, rely on web site
	BECC contract reduction	6,447	Boulder Energy Conservation Center Contract
	Reduce Boulder History Museum contribution	4,500	Boulder Energy Conservation Center Contract
	Bureau of Conf Serv & Cultural Affairs	5,000	Contractual agreement - food service & accommodation tax allocation
	CATV's funding reduction	7,000	Contractual agreement - cable tv franchise fees
Finance	Cost Allocation Study	7,000	Increase by cpi or perform less detailed study in-house
	Training/Travel	2,800	Sales tax auditors & other misc
Housing & Human Services	Child Care Recruitment Program – 0.5 FTE	16,938	Grant funded position, will require reallocation of resources
Human Resources & Organizational Effectiveness	Peer cities study/census	3,650	Comparison and analysis study will be discontinued
	Printing Compensation Plan	4,563	Discontinue provision as printed document, but available on line
	EAP Service Reduction	25,205	Cut counseling contract for life/work issues; may pay from Wkrs Comp Fund
Information Technology	Computer Replacement Funds	53,102	Extends repl sched - fund integrity in question, deserves annual revaluation
Library & Arts	Mini-grant reduction	9,395	\$19,570 available for mini-grants (48% reduction); total Arts budget \$218K
Municipal Court	Office related reductions	5,000	Relates to filing system enhancements & supplies
Parks & Recreation	Parks positions fund transfer	52,291	Move position funding to .25% P&R Sales Tax Fund
	Front desk temps	5,170	Reduce front desk assistance at Iris Center
Police	Information Specialists – 2 FTEs	72,482	Would result in redistribution and backlog of some work
	Non-personnel reductions	54,000	Relates to above personnel cost reductions
Public Works	Major maintenance – scheduled buildings	116,673	FAM - Extends replacement schedules of painting, carpeting, etc
	Equipment replacement – common space	21,000	FAM - Extends replacement schedule of furnishings and equipment
Total		\$632,398	